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Generating Broad-Based Growth Through Agribusiness Promotion

Summary

In the early 1980s, to promote sustainable agricultural development, USAID began focusing on the development of private agribusiness. It designed and implemented hundreds of interventions aimed exclusively or significantly at developing agribusiness in Africa, Asia, Latin America, and the Caribbean.

This assessment by the Center for Development Information and Evaluation (CDIE) presents policy and operational recommendations based on a review of agribusiness programs in seven countries. USAID agribusiness programs followed four main strategies. They provided direct assistance to existing and potential firms and entrepreneurs, promoted policy and regulatory reforms, helped build and strengthen private and public institutions favorable to agribusiness, and facilitated privatization of parastatals supplying fertilizer. These programs usually succeeded in promoting the emergence and growth of agribusiness enterprises. Agribusiness firms not only supplied farmers with agricultural inputs but also processed and marketed high-value cash crops, especially for export.

Most of the seven country programs performed satisfactorily. Two (Bangladesh and Guatemala) performed very well and three (Cameroon, Ecuador, and Thailand) did reasonably well. The other two (Sri Lanka and Uganda) were still struggling at the time of the assessment.

Programs to privatize fertilizer distribution succeeded beyond expectations. Most of the programs aimed at promoting nontraditional agricultural exports not only increased such exports but also helped create a business climate conducive to private sector growth. Especially successful were programs that boosted the growth of small and medium-size private agribusiness firms (which especially needed help with production technology and in developing export links with foreign importers). Less successful were programs promoting marketing cooperatives.

These had high operating costs, a habit of depending on government and donor assistance, and sluggish responsiveness to opportunities. Agribusiness programs did not attract significant foreign direct investment, but did facilitate collaborative arrangements between U.S. firms and local entrepreneurs. Such

arrangements involved raw-material sourcing, production technology, shipping, and export marketing.

Efforts to create government organizations offering support services to agribusiness firms also fell short, but efforts to promote membership-based private organizations of agricultural producers, processors, and exporters did succeed. These organizations emerged as powerful voices to articulate the interests of their members and to press for regulatory reform. They could provide standard services to members but not customized assistance requiring firm- or product-specific expertise.

Agribusiness programs had significant effects on employment and income generation in most countries. Small farmers benefited greatly from agribusiness programs. In practically all host countries with a focus on nontraditional exports, contract farming spread rapidly, generating unprecedented opportunities for small farmers. Contract farming gave farmers access to national and foreign markets as well as to production technology. Although women benefited from the growth of agribusiness, they did not benefit fully and equally from firm ownership.

What did USAID learn from these programs? Agribusiness programs should focus primarily on improving a country's policy, regulatory, and institutional environment; assistance to individual enterprises should be secondary. USAID Missions should take the time to formulate a realistic, coherent, but flexible long-term strategy before initiating agribusiness interventions in a country, and agribusiness development programs should follow the lead of the private sector, not assume the lead.

USAID should continue to design interventions geared to small and medium-size firms (focusing on transfer of production technology and developing export market links) and continue to explore contract-farming arrangements. It should promote entrepreneurship among women. Interventions should support cooperatives only when they demonstrate the will and ability to subject themselves to the discipline of the marketplace. And sunset clauses should be built into all agribusiness assistance.

Background

The primary objective of USAID's agribusiness programs has been sustainable economic development based on private sector-led agricultural development. This has required more than direct assistance to existing or emerging agribusiness firms. It has required reforming macroeconomic policy and building an institutional infrastructure conducive to growth of the agribusiness sector.

In 1993-94, CDIE undertook an assessment of the performance and impact of USAID's recent agribusiness programs. CDIE reviewed program documents and reports; interviewed USAID managers, contractors, and outside experts; conducted fieldwork in and prepared case studies on seven countries. The country programs

varied, and in many cases their focus shifted over time as shown in table 1.

USAID's Approach

The agribusiness programs followed four main intervention strategies:

Develop and strengthen public and private institutions that support agribusiness. Three types of organizations were targeted:

government ministries and agencies that regulate, provide a legal framework for, and service private agribusinesses;

semigovernmental organizations, such as export and investment boards; and trade and business associations, guilds, cooperatives, foundations, and financial intermediaries.

Assist entrepreneurs with agroprocessing and marketing. Most assistance training, credit, technical assistance, and occasionally grants was channeled through banks, nongovernmental organizations (NGOs), trade or business organizations, and even government agencies.

Facilitate market development for agriculture-based products. Although limited attention was paid to the export of traditional products (such as coffee, bananas, livestock, cocoa, and rubber), agribusiness programs focused largely on nontraditional agricultural exports, such as fruits, vegetables, flowers, herbs, and spices.

Privatize parastatals and public organizations involved in marketing and distributing fertilizers. This strategy was adopted in Bangladesh and Cameroon; in the other five case study countries, agribusiness programs concentrated on the first three strategies.

Findings

How did the programs perform? Program performance was judged on six criteria, shown in table 2. They boil down to three variables:

Growth of private firms, of agribusiness cooperatives, and of collaborative arrangements with foreign firms

Strengthening of public and private institutions that support agribusiness

Increase in agricultural exports

Agribusiness programs succeeded in boosting the growth of agribusinesses, especially small and medium-size firms, in many countries. Assistance was critical in two areas: production technology and market networks with foreign importers. Import markets are volatile and competitive. Small and medium-size firms

need help initially in developing market links and providing reliable supplies of consistent quality.

Programs to promote official marketing cooperatives were less successful. Few cooperatives were prepared for market discipline; most were accustomed to government and donor assistance, although government assistance often entailed interference and manipulation. Cooperatives were often unable to respond flexibly to new opportunities; their services were often inappropriate and not available in a timely manner; and their operating costs were high.

Agribusiness programs did not attract significant foreign direct investments but did help facilitate collaboration between U.S. firms and local entrepreneurs. Collaborations were developed in raw-material sourcing, production technology, shipping, and export marketing.

Success with regulatory reform varied. Fertilizer distribution was privatized in Cameroon and Bangladesh. But efforts elsewhere to create sustainable government organizations offering effective support services to agribusiness firms were largely unsuccessful.

Programs to create and assist membership-based private organizations of agricultural producers, processors, and exporters were more effective. These organizations were able, over time, to set up established activities; they emerged as powerful voices that articulated the interests of their members and pressed for regulatory reform. They could offer standard services to members but were ineffective at providing customized assistance requiring firm- or product-specific expertise. Whether USAID-supported service organizations can provide such customized services remains in question because these organizations have high operating costs and rely too much on expatriate staff.

Programs aimed at increasing nontraditional agricultural exports showed promising results. They not only increased nontraditional exports but also created a business climate more conducive to private sector growth.

Economic and Social Impact

Effects on Income and Employment. Agribusiness programs significantly improved employment and incomes in most of the countries studied (see box 1). Although employment increased in agribusiness firms, the highest jump occurred on farms producing raw materials for those firms. The crops promoted by agribusiness programs were generally more labor-intensive than traditional crops, and diversification created additional demand for farm labor, generating employment for landless workers and pushing wages up. Returns on new or improved crop varieties ran significantly higher than on traditional crops, so farmers' incomes increased. For the first time, many farmers were able to produce new crops during the dry season or along with traditional crops.

With the growth of agroprocessing and marketing, related industrial and service firms emerged to provide packaging, advertising, land transport, shipping, and accounting services. These firms created more off-farm employment opportunities. Finally, the expansion of agribusiness had a multiplier effect: Increased incomes and spending in agriculture generated new demand for goods and services, creating new employment and income economywide.

Benefits to Small Farmers. Small farmers were major beneficiaries of agribusiness programs, profiting from them in nearly all case-study countries. In some countries, the land tenure system and national policies ensured that most beneficiaries would be smallholders. In others, both large and small farmers benefited from cultivation of new and improved crop varieties.

Contract farming was an effective mechanism for giving small farmers access to national and foreign markets as well as to production technology. In practically all host countries with a focus on nontraditional exports, contract farming spread rapidly, generating unprecedented opportunities for small farmers (see box 2).

Agribusiness firms preferred contracting with smallholders. For one thing, small farmers did not value family labor at market prices when they calculated production costs; their prices for produce were lower than those of larger firms, which had to hire laborers. Dealing with small farmers also conferred political legitimacy and protection from political protest. Most important, agribusiness discovered that small farmers were generally more efficient producers of nontraditional exports than larger farmers, once production technology was standardized and agricultural inputs were readily available.

Still, not all nontraditional exports promoted by USAID programs were suitable for contract farming by smallholders. For some export crops that are capital- and technology-intensive (such as cut flowers), large farmers and firms have the advantage. They also enjoy economies of scale in production of crops such as melons.

Effects on Women. Very few agribusiness owners were women, especially in medium-size and large firms. Women benefited mostly from working in agribusinesses and on contract farms (see box 3). In six of the seven countries studied, 10 to 50 percent of agribusiness employees were women. Contract farming employed an even higher proportion of women, partly because women were deemed more effective than men in such skilled operations as pollination. Still, women were paid slightly less than their male counterparts.

Women's workload increased as agribusiness expanded. Even though they got work on farms or in factories, women were still responsible for washing, child care, and other household chores. But as their incomes rose, women in some countries could purchase simple appliances (such as fuel-efficient stoves) or partially

processed foods (such as milled grains), which reduced their domestic workload.

The extra income also made women more economically independent. As they became more aware of their legal rights, fewer and fewer women who worked in agribusinesses or farms automatically passed their earnings to their spouses or other male householders. Increasingly they kept their income and decided how to spend it except for women working on household farms managed by men in their family. Presumably women not compensated directly for their time benefited indirectly from a general improvement in their household economy.

Finally, employment in agroprocessing industries gave women new identities and a new sense of empowerment. It seems most women would rather work in large agribusiness plants under impersonal, bureaucratic management than in the informal sector. In large firms they have more personal freedom and enjoy a sense of solidarity with other women employees. The factory environment has had a modernizing effect on their identities and self-perceptions.

Environmental Effects. To meet demand for blemish-free produce, especially for nontraditional exports, farmers generally increased their use of chemical pesticides. But excessive use in some cases created pesticide-resistant strains of pests and even significant health hazards for agricultural workers. In addition, when fresh produce had unacceptable levels of pesticide residues, destination countries detained or rejected it, resulting in tremendous losses to agribusiness firms and farmers.

At the time of the assessment, firms and farmers were becoming aware of the health hazards of pesticides and had started following safety procedures. Host country governments were also beginning to improve rules and regulations for applying chemical pesticides and were educating people about their hazards. Regulations in importing countries and programs for green labeling will eventually force producers to control pesticide use or lose out in international markets.

Economic Costs and Benefits. Did economic benefits generated justify the cost of the agribusiness programs? The case studies did not provide an unequivocal answer to this question, and calculations about the internal rate of return were viewed as tentative, even speculative. Bangladesh, Cameroon, Ecuador, and Guatemala showed returns of 10 percent or more, suggesting that economic outcomes justified USAID investments. Sri Lanka and Uganda did not show positive returns. For lack of data, the internal rate of return was not computed for Thailand.

Factors Affecting Program Performance and Impact

Several factors affected the performance and impact of agribusiness programs:

A focused, empirically grounded strategy tended to produce

positive results. Effective strategies were built on a realistic assessment of constraints on growth of agribusiness. Many programs were originally based on simplistic, flawed assumptions. Some posited a rigid design, which caused implementation delays and problems. But most acquired a sound strategic focus over time.

Suitable macroeconomic policy and regulatory reform were crucial to program success. Many of the countries studied had committed themselves to such reform, but progress was slow. That limited programs' performance and impact.

The success of export-oriented interventions also depended on the adequacy of physical and institutional infrastructure for agricultural activity.

Government commitment to programs was important, especially in those involving privatization, policy reform, and infrastructure components. The success of the two fertilizer privatization programs depended greatly on continued government support.

Tangible positive results early in a program were key to generating and nurturing such public commitment.

The agribusiness programs that established close relationships with private firms were generally the most successful. However, most programs had little input from agribusinesses and entrepreneurs at the design stage, so design documents did not focus on their needs, problems, and expectations. But private institutions were sometimes asked to implement program components to reduce red tape and give managers autonomy. This, plus close relationships with private firms, was a significant advance over the earlier tradition of dealing almost exclusively with government bureaucracies.

Good, well-targeted, timely technical assistance was important. Early in the program, most technical advisers came mainly from public institutions and knew little about the private sector, which limited their ability to help private organizations improve their management and operations. As they became more familiar with the private sector, program performance improved.

The success of the programs was also affected by such sociocultural factors as public officials' and planners' distrust of agricultural middlemen, the short time horizon of many farmers and entrepreneurs, and a limited tradition of entrepreneurship.

Recommendations

Agribusiness programs require a coherent, realistic, evolving, long-term strategy based on a rigorous analysis of the constraints on the growth of agribusiness and on a dialogue with both the government and the private sector. USAID missions should formulate such a strategy before initiating agribusiness interventions.

The main focus of USAID agribusiness programs should be to improve the policy, regulatory, and institutional environment. Direct and indirect assistance to individual enterprises should be secondary.

Agribusiness development programs should follow the lead of the private sector, not take the lead. This requires that programs not be too narrowly or rigidly designed.

Foreign direct investment is an effective means of transferring production technology and developing export markets. At the outset, however, it is more realistic to promote limited sourcing, technology licensing and franchising, and marketing arrangements between international firms and local entrepreneurs than to try to establish fully owned foreign subsidiaries or joint ventures in host countries.

Contract farming has been an effective institutional mechanism for linking small farmers with processors and marketers of many high-value cash crops (especially nontraditional exports). Such arrangements have been mutually beneficial, and USAID programs should continue to explore them.

USAID efforts to assist agribusiness cooperatives have not been encouraging. Producer and marketing cooperatives have been neither efficient nor sustainable, despite generous outside assistance. Therefore, USAID should support agribusiness cooperatives only when it is certain that they have the will and ability to subject themselves to the discipline of free markets.

Although women have benefited from agribusiness programs especially those of nontraditional exports they were not full and equal beneficiaries, especially in the ownership of firms. USAID programs should try to solve this problem by promoting women's entrepreneurship.

The improper use of pesticides emerged as a major problem, resulting in health hazards and significant economic losses to farmers and exporters. USAID agribusiness programs promoting nontraditional exports must give priority to ensuring the proper use of pesticides.

Small and medium-size firms dominate the agribusiness sector in developing countries, so USAID should continue to design interventions geared to them.

Direct technical assistance is useful to private sector agribusiness firms. USAID enterprise development interventions should focus on the transfer of production technology and the establishment of export links (with importing firms in destination markets), the two areas in which technical assistance has proven to be most effective.

USAID agribusiness assistance to firms, private-sector intermediary organizations, and producer and marketing associations should include sunset clauses. USAID should specify

early on when assistance will end and stick to that timetable.

This Evaluation Highlights was prepared by Pat McNees for the Center for Development Information and Evaluation. It summarizes the findings from USAID Program and Operations Assessment Report No. 9, "Generating Broad-Based Growth Through Agribusiness Promotion: Assessment of USAID Experience," by Krishna Kumar. Readers can order copies of CDIE reports from the DISC, 1611 North Kent Street, Suite 200, Arlington, VA 22209-2111, telephone: (703) 351-4006; fax: (703) 351-4039; Internet: docorder@disc.mhs.compuserve.com.